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C O N F I D E N T I A L PARAMARIBO 000836

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STATE FOR WHA/CAR LLUFTIG, EB

E.O. 12958: DECL: 12/23/15

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SUBJECT: FUTURE BRIGHT AS STATE-OWNED OIL COMPANY TURNS 25 YEARS OLD

REFTEL: PARAMARIBO 788

Classified by Ambassador Marsha E. Barnes, Reasons 1.4(d).

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Summary  
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[1](#)1. (U) On December 13 Suriname's state-owned oil company, Staatsolie, celebrated its 25th anniversary and said farewell to the man who has led the company since the beginning, Eddy Jharap. In his retirement speech Jharap highlighted the company's financial success and described the highs and lows of his tenure. In a separate media interview, Jharap spoke positively about Suriname's offshore potential, called for the responsible spending of future profits, and recommended the company be partially privatized. End Summary.

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The Achievements  
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[1](#)2. (U) On December 13 1980, the Government of Suriname (GOS) signed the petroleum contract that established Staatsolie. With a capital base of 500,000 Surinamese Guilders, or 275,000 USD, the company started its operations in 1981. Over the last 25 years, Staatsolie has produced a total of 57 million barrels of oil at a total value of 1.2 billion USD. The company's total profit has been 466 million USD of which 149 million has been paid to the GOS as income tax and another 175 million USD turned over as dividend. In the meantime, stockholder's equity has grown to 169 million USD. The oil reserves have increased from 15 million barrels to 170 million barrels, with commercially viable reserves at 110 million barrels. At an average price of 20 USD per barrel the reserves are valued at 2.2 billion USD.

[1](#)3. (U) In his speech Jharap gave an overview of the memorable moments he experienced with Staatsolie:

-- Within a year after the establishment of the company the first commercial field was found, which was followed by first production on November 25, 1982.  
-- In 1987 the company exported its first crude oil.  
-- In 1995 Staatsolie commenced the construction of a refinery, which went into production in 1997.  
-- To transport its oil, the company had three oil-tankers built and two pipelines constructed.  
-- In its 25 years Staatsolie has spent 441 million USD in exploration, production investments, and the construction of the refinery.

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Suriname's Offshore Potential  
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[1](#)4. (U) In an interview with the daily "de Ware Tijd" Jharap talked about Staatsolie's offshore program. Besides the three production-sharing agreements Staatsolie has with the Spanish Repsol YPF, Danish Mearsk and American Occidental Petroleum, it is also working on its own offshore project. According to Jharap expectations are very positive and he feels that the offshore programs will place Suriname on the "oil map." Repsol's program is the furthest along and expectations are that an oil rig will be placed next year for test drilling. Just the placement of the rig requires an investment of 25 to 30 million USD. If results from this testing prove commercially viable, then an investment of approximately one billion USD will be required for production facilities. Based on preparations and research, Jharap is optimistic that the program will be a significant success.

[1](#)5. (U) According to Jharap, Suriname will not have to wait for investments to be recuperated before it sees any revenue from offshore activities. In the contracts it has with its partners, Staatsolie stipulated that the GOS will receive 6.25 percent in royalties of the gross income from every barrel of oil that is extracted. This does not include the income tax Suriname will earn. Staatsolie's

initial input in the project is the oil field; in a later phase the company will be able to participate in production investments and development costs. Staatsolie's advantage here is that once a commercial find has been made the company will not have to tap into its own finances, but it will be able to get external financing on the international capital market, according to Jharap. Jharap is also very optimistic about the effect the offshore activities will have on Suriname's credit rating. One condition for this,

according to Jharap, is that the money the government earns is spent wisely, including continued reinvestment in the company.

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Staatsolie's Low Point  
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16. (U) As a low point in his time with the company Jharap recounted his near termination by the Wijdenbosch government. In 1998 Jharap was fired after he opposed then President Jules Wijdenbosch's plans to sell off the Tambaredjo oil fields and other parts of Staatsolie. Both management and workers of the company, supported by the private sector and labor organizations, protested against Jharap's termination by going on strike and shutting down all operations. In fear of an escalation of the tension and a spillover of the strike to other parts of the economy, Wijdenbosch was forced to retract Jharap's termination and his plans. (Note: This event was seen by many as the beginning of the end for the Wijdenbosch government, because less than a year afterwards massive national protests forced Wijdenbosch to hold early elections. End Note). Both Lloyd Read, chair of the labor union at Staatsolie, and Marc Waaldijk, current interim director of the company, cited this event in their farewell speeches last week. According to Read this was the first time in Surinamese history that workers and management had united in such a way.

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The Future  
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17. (U) In discussing Staatsolie's future Jharap said that he would like to see the company privatized. He added that both management and the GOS should do all they can to prevent the "Wijdenbosch effect," as he called it, from ever happening again. This can only happen if the company has a broad-based board of directors. Jharap also argued that a diverse group of shareholders would benefit the company. According to Jharap, the management team plans to present a proposal to the government to privatize 20 percent of the company. Only local businesses and Surinamers will be eligible to participate.

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Comment  
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18. (C) Through the years Eddy Jharap and Staatsolie have been synonymous, and it would be hard to consider the success of the company without thinking of Jharap. He has managed to shield the company from the political patronage staffing which has so damaged other parastatals. He has fended off attempts to bleed the company dry, ensuring constant investment in modernization and staff training. In his farewell address to employees and invited guests, including President, government, business and diplomatic representatives, Jharap credited an American petroleum engineer who mentored the company in its first two years with putting it on the path to success. His willingness to embrace foreign expertise contrasts with many Surinamers misplaced nationalism that makes them leery of much foreign intervention in the economy. His forward-looking comments on the need for Suriname to spend its future oil profits wisely are welcome and will hopefully prove an impetus for continued dialogue on the subject. Jharap complimented the Ambassador on an article in the press urging that Suriname think about how to use any oil boom to promote sustainable development. "You said what I want to say." The need for responsible management of future oil profits will be a true test for Suriname's government and people.

BARNES

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